

September 7, 2004

California Energy Commission

Re: Docket Nos. 03-IEP-01, 02-REN-1038, 03-RPS-1078, and 04-DIST-GEN-1

Docket Unit, MS-4

1516 Ninth Street

Sacramento, CA 95814-5504

To whom it may concern:

Enclosed herewith are comments submitted in response to the workshop held on August 27, 2004 concerning the Accelerated Renewable Energy Development.

These comments were also submitted electronically at

docket@energy.state.ca.us on September 7, 2004.

If any additional attention is required concerning this matter, please contact Mr. John Burnett at (213) 367-1744.

Sincerely,

Randy S. Howard

Executive Assistant to the General Manager-

Power System

**STATE OF CALIFORNIA
ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION**

In the Matter of:)	Docket No. 03-IEP-01,
Informational Proceedings and)	02-REN-1038, 03-RPS-1078,
Preparation of the 2004)	and 04-DIST-GEN-1
Integrated Energy Policy Report)	
Update)	
(2004 Energy Report Update))	

Comments of the
Los Angeles Department of Water and Power on the
California Energy Commission
Draft Staff White Paper Entitled
"Accelerated Renewable Energy Development"
Dated July 30, 2004

The Los Angeles Department of Water and Power (LADWP) welcomes this opportunity to provide comments on the California Energy Commission (CEC) draft staff white paper entitled "Accelerated Renewable Energy Development" (White Paper).

LADWP's comments address the White Paper's discussions regarding setting a common percentage and timetable for Investor Owned Utilities (IOUs) and Publicly Owned Utilities (POUs); the definition of a qualifying renewable; the use of Renewable Energy Certificates (RECs) for large hydroelectric energy; and net metering. These comments also provide an update on the currently proposed LADWP Renewable Portfolio Standard (RPS) plan.

There Is No Need to Change Existing Law Addressing POUs Renewable Goals

California law has established renewable goals for POUs to promote the use of renewable energy resources (Senate Bill 1078), recognizing that POUs have responsibilities that make them distinct from IOUs. Section 387 of the Public Utilities Commission Code states:

"Each governing body of a local publicly owned utility, as defined in Section 9604, shall be responsible for implementing and enforcing a renewables portfolio standard that recognizes the intent of the Legislature to encourage renewable resources, while taking into consideration the effect of the standard on rates,

reliability, and financial resources and the goal of environmental improvement."

Los Angeles' elected officials and LADWP management are firmly committed to meeting the spirit and intent of the law: LADWP is developing a RPS plan which is to conform with the balanced requirements and timelines of SB 1078. Furthermore, there has been no demonstrated need that this balanced approach, established by extensive discussions in the legislature, should be replaced by different requirements and timelines.

POUs Are Different Than IOUs And Should Not Adhere to the Same Accelerated Timelines As IOUs

The accelerated timelines as discussed in the White Paper are inappropriate for POUs, and LADWP in particular, for LADWP's circumstances, responsibilities and goals are different:

(1) LADWP is already resource adequate, while IOUs are not. Requiring LADWP to comply with accelerated timelines is inequitable because LADWP does not have the same need as the IOUs to add new supply.

- As a result of AB 1890, IOUs divested much of their generation, and they now need to purchase new supply for the shortfall resulting from this divestiture. In contrast, LADWP did not sell off its generation.
- In August, 2000, LADWP developed and the City of Los Angeles approved the LADWP Integrated Resource Plan (IRP). This plan puts forward resource goals to be achieved and commits approximately 2 billion dollars for capital investment. These goals include:
 - Maintain the ability for self-sufficiency in serving the City's customers (native load).
 - Provide sufficient generation reserves to meet system reliability requirements.
 - Meet 50% of load growth with conservation & energy efficiency, distributed generation, and renewable resources.
 - Reduce CO₂ emissions to 5 percent below 1990 levels by 2008-12.
 - Install emission controls to reduce NO_x in the LA Basin.
 - Repower basin generation to increase generation efficiency by 30% and provide substantial emission reduction.

Many of these projects are now either fully implemented, or are under construction. It is the intent of LADWP to integrate the RPS goals within the City's IRP plan in a responsible manner, including "taking into consideration the effect of the standard on rates, reliability, and financial resources and the goal of environmental improvement."

Consequently, through its previous resource planning and its current IRP, LADWP is already resource adequate and continues to work to maintain such self-sufficiency. LADWP does not have the same need as IOUs to add new supply, whether renewable or non-renewable.

(2) LADWP is a POU established with a fiduciary responsibility to its local citizens, as opposed to IOUs who are responsible to their stockholders. Any resource decision receives input from the community, local elected officials and local board representatives, as opposed to IOUs who do not receive this kind of public input.

(3) LADWP does not receive the same level of federal incentives to build renewables as IOUs. IOUs receive federal tax credits (Production Tax Credits) as an incentive to build renewables, while POU's do not receive significant federal incentives. The only federal incentive program available to POU's is the Renewable Energy Production Incentive program, and this program has been chronically underfunded for years. LADWP and other POU's are recommending to the U.S. Congress that additional federal incentives be developed, such as tradable tax credits and/or other instruments that would facilitate POU's to build more renewables. However, at this point, the POU's have not had success obtaining the same level of federal incentives to build renewables as IOUs.

Therefore, taking into consideration that POU's, and LADWP in particular, are differently positioned than IOUs, and the firm commitment from Los Angeles elected officials and LADWP management to fulfill the spirit and intent of the existing law (SB 1078), the CEC should not support any proposal that subjects LADWP to the same accelerated timelines as IOUs: doing so will expose LADWP to accelerated rate increases, and to unfair and disproportionate financial burdens. Instead, the formulation under SB 1078 should be maintained in the interest of recognizing the different goals, responsibilities and circumstances that exist between POU's and IOUs.

LADWP Renewable Portfolio Standard

The mayor of the City of Los Angeles (City) earlier this year created a Green Ribbon Commission on Renewable Energy to develop a plan to meet the City's electric needs with 20 percent of renewable energy, and to continue to provide residents and businesses of Los Angeles with reliable power at competitive rates. Members of this Committee include locally elected officials, LADWP managers, neighborhood councils, environmental, labor and business community representatives. The Green Ribbon Committee will, amongst other things:

- Ensure steady progress towards a 20% goal;
- Procure renewables through a competitive public bidding system;
- Identify clear and definite milestones;
- Increase public awareness of renewable resources; and

- Foster public support for renewable resources.

In July 2004, the Los Angeles City Council passed a resolution requiring the City to develop and adopt a RPS that meets the goal of a 20% renewable energy mix by 2017. This RPS plan is to be adopted, with a set of applicable milestones, by the end of 2004. The resolution also calls for LADWP to incorporate this RPS into all future system planning (including LADWP's Integrated Resource Plan.)

Currently LADWP, in consultation with the Green Ribbon Commission, is proposing to achieve the City Council's directive by increasing the renewable energy resources in its energy mix to 13 percent by 2010, and 20 percent by 2017 (approximately 1% new renewables per year). This plan will ensure the City can meet its RPS goals, and at the same time maintain power system reliability, affordable rates for our customers, and the utility's financial integrity.

Under the previously described Integrated Resource Plan, LADWP has already moved forward with a number of projects that will produce renewable energy, reduce emissions, and increase efficiency, including:

- 120 MW Pine Tree Wind project expected to be in-service by 2006;
- \$150 million program to install rooftop solar photovoltaic systems throughout Los Angeles;
- • Established a Distributed Generation Program that provides incentives for customers that use distributed generation and focus on renewable fuels or low emission technology;
- Modernization of the 17 MW San Francisquito Canyon hydroelectric facility;
- Installation of 50 microturbines at Lopez Canyon Landfill to convert methane gas into energy; and
- An agreement to purchase 40 MW of power annually from a Bioconverter green waste digestion facility.

LADWP strongly believes that a POU, with the approval of its local governing body, is in the best position to reflect the interest of its local constituency and the determination of the mix of goals to be met in a specific RPS. LADWP is currently developing cost recovery and financial control mechanisms that mitigate the financial impact on its retail customers, and will conduct public meetings with its customers to get input on the overall proposed plan.

As shown above, the RPS goals of the existing law to increase resource diversity, reliability, public health and environmental benefits, are already being implemented by the City.

What Qualifies As a Renewable

Just as LADWP believes that POUs are in the best position to determine the best

RPS for its constituency, they are also best situated to determine what qualifies as a renewable resource. For example, there is no consistent definition for "small hydro" in the United States. It would appear appropriate that individual POUs developed their own definition. For instance, while recognizing the environmental challenges posed by large hydro generation facilities located on the nation's natural waterways, larger hydro plants built on a man-made waterway, such as an aqueduct, present no such challenge and should otherwise be presumed to qualify as a renewable resource.

Renewable Energy Certificates (RECs) for Large Hydroelectric Energy

Although LADWP does not intend to use RECs to meet its RPS obligation, LADWP believes that RECs should remain bundled and traded through negotiated swaps between the utilities.

The White Paper discusses a concern that "publicly owned electric utilities may decide to purchase unbundled RECs from large hydroelectric power, possibly from the IOUs who are prohibited from using large hydro in their RPS programs" (pg 27), and if the POUs could "buy large hydroelectric RECs, they may be willing to sell some of their existing 'eligible' renewables to the IOUs, which may reduce the amount of new renewable energy procured by the IOUs to meet the RPS" (page 29). To alleviate these concerns, protocols could be set up by the State for a particular designated entity to track and monitor RECs and renewable resources, and to correct any loopholes that may be identified.

Net Metering

As noted in the White Paper, Assembly Bill 58 (2002) set a minimum net metering cap for each utility. Utilities are only required to offer net metering until the total rated generating capacity used by eligible customer-generators reaches one-half of 1 percent of the utility's aggregate customer peak demand.

LADWP, while exempt from AB 58, has implemented a net metering program which generally corresponds with the provisions in AB 58. LADWP has no net metering cap to limit the amount of customers eligible for net metering, in contrast to the 1/2% cap in AB 58. AB 58 sets an upper limit of 1 MW on individual projects; LADWP has the same upper limit of 1 MW on individual projects.

Conclusions

As a matter of policy, it is the strong belief from LADWP that POUs are best situated to design and implement their own renewable energy programs:

- POU's circumstances are different from IOUs:
 - There was no divestiture of generation resources;
 - They are vertically-integrated;
 - Many POU's, including LADWP, planned and built their generation resources to meet both present and future loads. LADWP has done this through its IRP;
 - POU's do not receive the same level of federal incentives to build renewables as IOUs;
 - Their service territories are relatively concentrated and geographically unique.
- LADWP, and most if not all of the POU's in California have committed themselves to a renewable program. The implementation of those programs take into account their own circumstances and individual utility objectives as decided by their local regulatory bodies.
- Local control of and accountability for a POU's RPS program best addresses community needs with respect to environmental stewardship, energy security and rates needed to support local economy.

The RPS established in Senate Bill 1078 recognizes the different circumstances, responsibilities and goals that the POU's have in contrast to the IOUs. LADWP believes that local flexibility and local decision-making allows for the opportunity to meet both, the overall state goals for renewables and the POU's' objectives as determined by its local regulatory body, in a manner consistent with state and local interests.

As shown in these comments, LADWP is already fulfilling the state goals of increasing resource diversity, reliability, public health and environmental benefits through a commitment to adopt a RPS of 20% renewable energy by 2017, by the end of 2004, and specific actions already undertaken are enumerated above.

Therefore, LADWP recommends that the existing flexibility for the POU's' renewables plans, which was established by Senate Bill 1078, be maintained, and that one-size-fits-all timelines and definitions for renewables not be applied to the POU's.

Dated: September 7, 2004

Respectively submitted,

Randy S. Howard
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Manager – Power System